

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BEC1624 –MACROECONOMICS
(All sections / Groups)

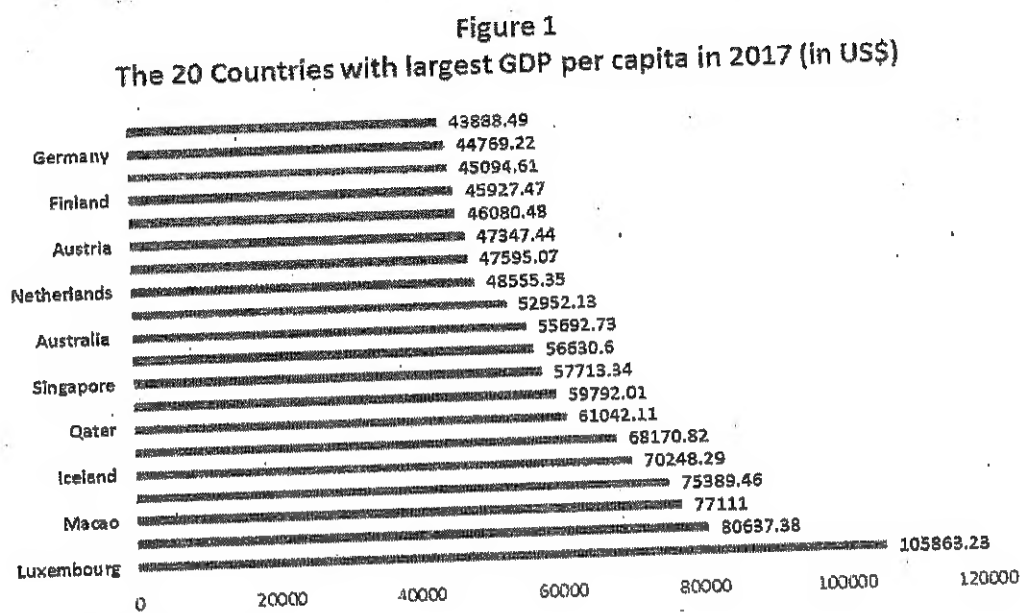
13 MARCH 2019
2.30 P.M – 5.30 P.M
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 5 pages with 5 questions only.
2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

- (a) Figure 1 shows the top 20 countries with highest Gross Domestic Product (GDP) per capita in year 2017.



Source: Statistica (2018).

- i. Gross Domestic Product (GDP) per capita is a good indicator for a country's standard of living. Comment on this statement. (4 marks)
- ii. Compare the GDP per capita of Luxembourg with Singapore. Discuss whether the income earning of Singaporeans are worse than people living in Luxembourg. (4 marks)
- iii. Since Luxembourg is ranked as country having the largest GDP per capita, it is necessarily its total GDP must be largest too? Explain. (6 marks)

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- (b) In a single economy, people consume only two goods, nasi lemak and chicken drumstick in the following amounts:

	Nasi lemak		Chicken drumstick	
	Quantity	Price/pack (RM)	Quantity	Price/piece (RM)
2017	10	3	20	5
2018	15	4	30	8

Use year 2017 as a base year. Show all your c using two decimal points.

- Calculate the consumer price index (CPI) for 2017 and 2018. (4 marks)
- Calculate inflation rate. (2 marks)

(Total: 20 marks)

QUESTION 2

- (c) Explain how unemployment insurance acts as an automatic stabilizer. (5 marks)
- (d) Malaysia will undoubtedly be affected by the US-China trade war given that both these countries are among our top 3 trading partners. However, the trade conflict between China and the US also creates a unique opportunity for Malaysia to position itself as a safe haven for manufacturing investors.

Therefore, it is not surprising that Malaysia continues to strongly attract Foreign Direct Investment (FDI). From January to August 2018, Malaysia recorded a total of RM61.6 billion in investment approvals, up from RM40.4 billion during the same period in 2017.

Source: Ministry of Finance (2018). Budget 2019 Speech, Retrieved from: <http://www.treasury.gov.my/pdf/budget/speech/bs19.pdf> (5 November 2018).

How do outward-oriented policies such as that practiced by Malaysia affect its productivity? (9 marks)

Continued...

- (e) KUALA LUMPUR: RAM Rating Services Bhd. (RAM Ratings) has forecast that the country's overall inflation would remain contained in 2018 despite upward pressure from the Sales and Services Tax (SST).

It said the overall inflation was predicted to average 1.3 per cent in 2018 from 3.7 per cent in 2017, largely due to the easing of food inflation, reinstatement of fuel subsidies and zero-rating of the Goods and Services Tax (GST).

Source: BERNAMA (2018). RAM Ratings expects inflation to remain contained in 2018, Retrieved from: <https://www.nst.com.my/business/2018/10/424401/ram-ratings-expects-inflation-remain-contained-2018> (10 December 2018).

Inflation is calculated using the Consumer Price Inflation (CPI). Describe the **THREE (3)** major problems in using the CPI as a measure of the cost of living.
(6 marks)

(Total: 20 marks)

QUESTION 3

- (a) An allocation of RM10 million will be provided to set up additional 50 childcare facilities in Government buildings to ease the burden of working mothers. The Government will continue to encourage and incentivise the private sector towards providing equal employment opportunities for women.

Source: Ministry of Finance (2018). Budget 2019 Speech, Retrieved from: <http://www.treasury.gov.my/pdf/budget/speech/bs19.pdf> (5 November 2018).

Justify how providing additional childcare facilities in Government buildings will increase the labour force participation rate of women in Malaysia.
(4 marks)

- (b) Justify how the net exports (NX) and net capital outflow (NCO) always equal in an open economy.
(6 marks)

- (c) Suppose that Malaysians start saving more.

What does this imply about the supply of loanable funds, the equilibrium real interest rate, and the real exchange rate?
(10 marks)

(Total: 20 marks)

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QUESTION 4

- (a) Suppose that there are no crowding-out effects and the MPC is 0.9. Evaluate by how much must the government increase its expenditures in order to shift the aggregate demand curve to the right by RM10 billion? (4 marks)
- (b) Discuss why most economists believe that classical theory describes the world in the long run but not in the short run. (4 marks)
- (c) Explain whether each of the following events will increase, decrease, or have no effect on long-run aggregate supply.
- i. Malaysia experiences a wave of skilled migration into the country. (3 marks)
 - ii. AMD invents a new and more powerful computer chip. (3 marks)
 - iii. Telekom Malaysia (TM) invests in new 5G mobile telecommunications technology. (3 marks)
 - iv. A severe landslide damages factories in Pulau Pinang. (3 marks)
- (Total: 20 marks)

QUESTION 5

- (a) The Phillips curve suggests there is a trade-off between inflation and unemployment, at least in the short run. Hence, policymakers may face a trade-off between unemployment and inflation.
- i. Discuss this trade-off when Central Bank of Indonesia decreases reserve requirement ratio. (6 marks)
 - ii. Use the model of Aggregate Demand and Aggregate Supply and Phillips curve to show the impact from above policy changes. (4 marks)

Continued...

- (b) One of the local banks in your community, Sunatono Bank has the following balance sheet (in billions of US\$) as follows:

Assets	US\$ billions	Liabilities	US\$ billions
Reserves	2,000	Deposits	3000
Government securities	350		
Loans	650		

- i. If the required reserve ratio is 0.25 or 25 percent, how much in excess reserves does the bank hold?
(3 marks)
- ii. Determine the maximum amount by which the bank can expand its loan?
(3 marks)
- iii. If the bank makes the loans in (ii), show the immediate impact on the bank's balance sheet.
(4 marks)

(Total: 20 marks)

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